



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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INVESTOR ALERT: DO HOMEWORK BEFORE INVESTING IN 529 COLLEGE SAVINGS PLANS

PHOENIX – As the year draws to a close, many investors are making decisions for their long-term financial goals, including saving for college through Section 529 College Savings plans. With increasing numbers of investors turning to these plans to help finance higher education costs, the Arizona Corporation Commission is concerned that they may not always have all the facts needed to make appropriate investment decisions.

“This is a situation where a little homework can really pay off. Before investing in a College Savings Plan, you need to educate yourself about the differences among the many plans offered today and choose the plan that’s right for you,” said Arizona Corporation Commission Chairman Jeff Hatch-Miller.

“College Savings Plan assets and choices are growing at a fast pace,” Commissioner Marc Spitzer said.

“According to the most recent statistics from the College Savings Plan Network, state-sponsored 529 College Savings Plans have attracted more than \$72.4 billion in assets.” The College Savings Plan Network is an affiliate of the National Association of State Treasurers.

“These tax-advantaged savings plans are designed to encourage saving for future higher education costs by allowing contributions to grow tax-free,” Commissioner Bill Mundell said, adding “the money investors take out later from the plans is free from federal taxes as long as it is used to pay for qualified higher education expenses.”

The tax-free withdrawal provisions are scheduled to lapse in 2010 unless renewed by Congress.

Every state and the District of Columbia offers at least one 529 College Savings Plan. Although these plans can be purchased directly from the plan administrator, industry estimates show that as many as three out of four investors purchase their plan with the help of an investment professional, such as a financial adviser or broker.

“Regardless of how the plan is purchased, investors should have a basic understanding of the plan’s benefits, costs, and tax implications. In addition, be sure to ask whether the plan limits your choice of schools,” Commissioner Mike Gleason cautioned.

To help investors select the most appropriate college savings plan, the Commissioners suggest that investors ask their financial professional four key questions before investing in a 529 College Savings Plan.

1. What are the plan’s tax implications? Tax treatment of college savings plan contributions, earnings, and withdrawals varies from one state to another. A number of states allow residents who participate in their own state’s plans to claim a partial or full state income tax deduction on contributions. In addition, many states provide residents with a state tax break on money taken out of 529 plans to pay qualified college expenses. Make sure you understand your state’s tax treatment of contributions to, and earnings distributions from, both in-state and out-of-state 529 plans.

2. What are the plan’s expenses? All College Savings Plans have associated costs, which can affect your investment return. Plans sold by financial professionals often cost more than plans purchased directly from the state. These extra costs generally stem from sales loads or other fees associated with share classes, annual distribution fees, including fees used to compensate the financial professional. You are entitled to a complete list of the costs associated with the plans – be sure to ask for it.

3. How are you compensated for these plans? Ask whether the adviser or broker receives a commission from any of the plans he or she is recommending. You also should be sure to ask about the plans offered by your home state to ensure that the plan you ultimately select best suits your needs.

4. Does an out-of-state plan’s performance or costs outweigh tax benefits of a home state plan? No two plans are exactly alike, and in some cases, it might make sense to consider an out-of-state plan. For example, if your in-state plan offers a tax deduction, but is saddled with high fees and poor performance, an out-of-state plan with lower fees and stronger performance may be the better choice.

“Before selecting any plan recommended by a financial professional, it is always wise to do your own research to double-check his or her advice,” Commissioner Kris Mayes said.

In addition to getting answers to the above questions, the Commissioners recommend reviewing a free brochure entitled “A Guide to Understanding College Savings Plans.” The brochure is available on the North American Securities Administrators Association (NASAA) website at: http://www.nasaa.org/investor_education/3136.cfm.

For more information on other investing topics, be sure to visit www.azinvestor.gov, the Arizona Corporation Commission’s investor education website. **VERIFY BEFORE YOU BUY!** Call the Securities Division, (602) 542-4242, toll free (866) VERIFY-9.

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